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RUEHNR/AMEMBASSY NAIROBI 4559
RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1207
RHEHAAA/NSC WASHDC
RHMFISS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC//DHO-7//
RUCPDOC/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//
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UNCLAS SECTION 01 OF 02 HARARE 000366

SIPDIS

SENSITIVE
SIPDIS

AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR L.DOBBINS AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: N/A
TAGS: ECON PGOV ASEC ZI
SUBJECT: COCA COLA, HAMMERED BUT IN ZIMBABWE TO STAY

SUMMARY

¶1. (U) Coca Cola is in Zimbabwe for the long haul, but the company and its bottlers are plagued by the problems of labor retention, access to foreign exchange, sugar procurement, punitive price controls, and power and water outages. A senior executive believed that the technical state of the bottling plants was still good and key personnel would return to Zimbabwe once a recovery set in; the biggest constraint on returning to normal operation would be the poor state of Zimbabwe's sugar refineries. END SUMMARY.

The Challenge of Retaining Labor

¶2. (SBU) Coca Cola's Senior Operations Marketing Manager in Zimbabwe, Togarepi Chinoda, told econoff on April 21 that Coca Cola was in Zimbabwe for the long haul despite a plethora of challenges. From a staff of 49 in 1998, four employees now managed the brand. Of 20 management trainees taken on, Chinoda said an average of only one was willing to remain with the company after two years of training, primarily due to poor remuneration. Coca Cola's solution to the white-collar staffing problem was to intensify management training and promise a temporary posting to a Coca Cola operation elsewhere in the region. Chinoda himself had recently relocated to Lusaka to manage the South Central Africa Territory, including Zimbabwe, which he now visited only once a month. On the plant side, it was particularly

difficult for the company's contracted bottlers to retain workers and motivate them even to show up for work.

Falling Production, No Access to Forex

¶3. (SBU) Production at Coca Cola's local bottlers (Delta Corporation, Schweppes Zimbabwe and Mutare Bottlers) fell from 63 million unit cases in 2002 to 16 million unit cases last year. Although the Reserve Bank of Zimbabwe (RBZ) allowed, for example, Delta to retain 100 percent of its foreign currency earnings, Delta had been unable to access any of its forex since October (50 percent of Delta's inputs to Coca Cola products are imported). Delta received BACOSSI funds from the RBZ at 25 percent annual interest last year to purchase raw materials, but it was only once-off funding and the plant had exhausted the inputs within a week. Procuring sugar remained a huge challenge.

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Punitive Price Controls, Power/Water Shortages
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¶4. (SBU) Demand for Coca Cola's products was strong even at high prices, but the National Incomes and Pricing Commission (NIPC) failed to approve price increases frequently enough. On April 16, the bottlers had received a long awaited price increase but under hyperinflation even the new price (Z$17 million a bottle - or roughly a US$ nickel at the street rate - up from Z$12 million) no longer covered the cost of production. For its part, Chinoda said Coca Cola had sought to minimize costs to the bottlers by taking over nearly all

their marketing and distribution functions. In the meantime, production at Delta had fallen to, at best, 2-3 days a week and suppliers were "screaming" to get paid.

¶5. (SBU) The Delta bottling plant in Harare had good power and water supply but its Bulawayo plant suffered regular outages. Schweppes Zimbabwe's Willowvale plant in Harare, on the other hand, had come to a standstill all of last week for lack of power and, for two days, lack of water. Chinoda commented that Schweppes had been hardest hit of all bottlers at the start of the price crackdown last year. He assumed that Coca Cola's 100 percent ownership of Schweppes Zimbabwe and the fact that it produces Zimbabwe's national drink - Mazoe orange crush - had most likely attracted the attention of top military officials (including Police Commissioner Augustine Chihuri and Air Marshal Perence Shiri), who had descended on the plant demanding that production continue at all costs.

Looking Ahead

¶6. (SBU) Looking ahead, Chinoda felt that, from a technical point of view, production at the bottlers could be ramped up quickly and key personnel would also flock back from the region once a recovery set in, but the state of Zimbabwe's sugar refineries was a serious constraint. He believed it could take up to a year to refurbish the refineries to the point that they could provide a steady and large enough supply of sugar to allow the bottlers to return to normal operation.

DHANANI